

AMENDED IN SENATE MAY 2, 2006
AMENDED IN SENATE APRIL 17, 2006

SENATE BILL

No. 1591

Introduced by Senator Kuehl

February 24, 2006

An act to amend Section 1378 of the Health and Safety Code, and to add Section 10113.10 to the Insurance Code, relating to health care coverage.

LEGISLATIVE COUNSEL'S DIGEST

SB 1591, as amended, Kuehl. Administrative costs.

Existing law, the Knox-Keene Health Care Service Plan Act of 1975, provides for the licensure and regulation of health care service plans by the Department of Managed Health Care and makes a willful violation of the act a crime. Existing law also provides for the regulation of health insurers by the Department of Insurance. Under existing law, a health care service plan is prohibited from expending for administrative costs, as defined, an excessive amount of the payments it receives for providing health care services to its subscribers and enrollees.

This bill would limit the amount a health care service plan or a health insurer may expend for administrative costs in a fiscal year to a specific percentage of the payments it receives for providing health care services to its subscribers, enrollees, or insureds, and would prohibit a plan or insurer from expending less in the form of aggregate benefits than a specified percentage of those payments. The bill would require a plan or insurer to suspend payment of a monetary benefit to shareholders until it compensates, as specified, its subscribers, enrollees, or insureds by the amount that administrative costs exceed

~~the limitation imposed by the bill or until aggregate benefit expenses are equal to or more than the minimum required by the bill enact a similar provision relative to excessive administrative costs applicable to health insurers that would become operative July 1, 2008, and would require the Department of Insurance to adopt regulations in that regard. The bill would define “administrative costs” for these purposes.~~

~~Because this bill would specify additional requirements for a health care service plan, the violation of which would be a crime, it would impose a state-mandated local program.~~

~~The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.~~

~~This bill would provide that no reimbursement is required by this act for a specified reason.~~

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: ~~yes~~ no.

The people of the State of California do enact as follows:

- 1 ~~SECTION 1. Section 1378 of the Health and Safety Code is~~
- 2 ~~amended to read:~~
- 3 ~~1378. (a) No plan shall expend for administrative costs in~~
- 4 ~~any fiscal year more than 15 percent, or 25 percent for a plan that~~
- 5 ~~has been licensed for less than five years, of the aggregate dues,~~
- 6 ~~fees, and other periodic payments received by the plan for~~
- 7 ~~providing health care services to its subscribers or enrollees. The~~
- 8 ~~term “administrative costs,” as used in this section, includes all~~
- 9 ~~costs identified in Section 1300.78 of Title 28 of the California~~
- 10 ~~Code of Regulations as that section read on January 1, 2005.~~
- 11 ~~(b) This section shall not preclude a plan from expending~~
- 12 ~~additional sums of money for administrative costs if the money is~~
- 13 ~~not derived from revenue obtained from subscribers or enrollees~~
- 14 ~~of the plan.~~
- 15 ~~(c) In any fiscal year, no plan shall expend in the form of~~
- 16 ~~aggregate benefits less than 85 percent, or 75 percent for a plan~~
- 17 ~~that has been licensed for less than five years, of the aggregate~~
- 18 ~~dues, fees, and other periodic payments received by the plan for~~
- 19 ~~providing health care services to its subscribers or enrollees.~~

1 ~~(d) Whether a plan conforms to the provisions of this section~~
2 ~~shall be calculated in accordance with accepted actuarial~~
3 ~~principles and practices.~~

4 ~~(e) A for-profit health care service plan that violates this~~
5 ~~section shall not provide any monetary benefit, including, but not~~
6 ~~limited to, dividends, stock options, and bonuses to its~~
7 ~~shareholders until it has paid to the subscribers and enrollees of~~
8 ~~the plan the amount by which its administrative costs exceed the~~
9 ~~limit set forth in subdivision (a) or until aggregate benefit~~
10 ~~expenses are equal to or more than the minimum set forth in~~
11 ~~subdivision (e). The payment shall be made by the plan by~~
12 ~~reducing the amount of its premium or increasing the benefits~~
13 ~~provided to subscribers and enrollees.~~

14 ~~SEC. 2.~~

15 *SECTION 1.* Section 10113.10 is added to the Insurance
16 Code, to read:

17 10113.10. (a) No health insurer shall expend for
18 administrative costs in any fiscal year ~~more than 15 percent, or~~
19 ~~25 percent for an insurer that has issued health insurance policies~~
20 ~~for less than five years, an excessive amount~~ of the aggregate
21 dues, fees, and other periodic payments received by the insurer
22 for providing health care services to its insureds. The term
23 “administrative costs,” as used in this section, includes all costs
24 identified in Section 1300.78 of Title 28 of the California Code
25 of Regulations as that section read on January 1, ~~2005~~ 2006.

26 (b) This section shall not preclude an insurer from expending
27 additional sums of money for administrative costs if the money is
28 not derived from revenue obtained from its insureds.

29 ~~(c) In any fiscal year, no health insurer shall expend in the~~
30 ~~form of aggregate benefits less than 85 percent, or 75 percent for~~
31 ~~an insurer that has issued health insurance policies for less than~~
32 ~~five years, of the aggregate dues, fees, and other periodic~~
33 ~~payments received by the insurer for providing health services to~~
34 ~~its insureds.~~

35 ~~(d) Whether a health insurer is in compliance with the~~
36 ~~provisions of this section shall be calculated in accordance with~~
37 ~~accepted actuarial principles and practices.~~

38 ~~(e) An insurer that violates this section shall not provide any~~
39 ~~monetary benefit, including, but not limited to, dividends, stock~~
40 ~~options, and bonuses to its shareholders until it has paid to its~~

1 insureds the amount by which its administrative costs exceed the
2 limit set forth in subdivision (a) or until aggregate benefit
3 expenses are equal to or more than the minimum set forth in
4 subdivision (e). The payment shall be made by the insurer by
5 reducing the amount of its premium or increasing the benefits
6 provided to insureds.

7 SEC. 3. No reimbursement is required by this act pursuant to
8 Section 6 of Article XIII B of the California Constitution because
9 the only costs that may be incurred by a local agency or school
10 district will be incurred because this act creates a new crime or
11 infraction, eliminates a crime or infraction, or changes the
12 penalty for a crime or infraction, within the meaning of Section
13 17556 of the Government Code, or changes the definition of a
14 crime within the meaning of Section 6 of Article XIII B of the
15 California Constitution.

16 (c) The department shall adopt regulations to implement this
17 section pursuant to Chapter 3.5 (commencing with Section
18 11340) of Division 3 of Title 2 of the Government Code. The
19 department shall submit the regulations to the Office of
20 Administrative Law no later than January 1, 2008.

21 (d) Subdivisions (a) and (b) shall become operative on July 1,
22 2008.